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Mexico

Tomatoes and Products

Annual Report

2004

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Report Highlights:

Mexico's total tomato production for MY 2004/05 is forecast to increase to 2.0 MMT compared to MY 2003/04 production due to better yields. Tomato exports are forecast to increase as better quality is expected. Tomato paste production for MY 2005/06 will remain at low levels because it is expected to be more profitable to import tomato paste than to produce it domestically.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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SECTION I. SITUATION AND OUTLOOK**TOMATO SITUATION**

Tomato production for Mexico for MY 2004/05 (Oct/Sep) is forecast to increase to 2.0 million metric tons (MMT) due to expected higher yields. The states of Sinaloa and Jalisco were affected by rain and high humidity during late September-early October resulting in very little volume harvested for late November and December 2004. Growers had to replant and higher production is expected to resume by January 2005. Exports for MY 2004/05 are forecast to increase due to expected better quality and good international demand. Tomato paste production for MY 2005/2006 (March/February) is forecast to remain flat at 7,000 MT as international prices are expected to continue to be low, making it more profitable to continue importing to supply the domestic market. MY 2005/06 imports are forecast to be 38,200 MT to meet domestic demand.

SECTION II. STATISTICAL TABLES

FRESH TOMATO TABLE

Country	Mexico					
Commodity	Fresh Tomatoes				(HA)(MT)	
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2002		10/2003		10/2004	
Plnt For Fresh Consump	68505	68678	68400	70000	0	70000
Plnt For Processing	1600	1600	1600	1600	0	1600
TOTAL Area Planted	70105	70278	70000	71600	0	71600
Harv. For Fresh Cons.	65200	66145	63300	65370	0	67240
Harv. For Processing	1500	1500	1500	1500	0	1500
TOTAL Area Harvested	66700	67645	64800	66870	0	68740
Fresh Sale Production	1937500	2108658	1804000	1889230	0	1967800
Processing Production	52500	52500	51000	50000	0	60000
TOTAL Production	1990000	2161158	1855000	1939230	0	2027800
TOTAL SUPPLY	1990000	2161158	1855000	1939230	0	2027800

TOMATO PASTE TABLE

Country	Mexico					
Commodity	Tomato Paste,28-30% TSS Basis		(MT) (MT, Net Weight)			
	2003 Revised		2004 Estimate		2005 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	03/2003		03/2004		03/2005	
Deliv. To Processors	45000	48000	45000	48000	0	48000
Beginning Stocks	0	0	0	0	0	0
Production	7500	7000	7500	7000	0	7000
Imports	44945	44945	44950	38000	0	38000
TOTAL SUPPLY	52445	51945	52450	45000	0	45000
Exports	6790	6790	6500	6800	0	6800
Domestic Consumption	45655	45155	45950	38200	0	38200
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	52445	51945	52450	45000	0	45000

TOMATO PRICES

Wholesale Tomatoes Prices Pesos/Kilogram			
Month	2003	2004	CHANGE %
JANUARY	9.22	8.66	(6.07)
February	5.96	7.17	20.30
MARCH	10.98	5.79	(47.26)
APRIL	8.74	9.25	5.83
MAY	10.69	10.33	(3.36)
JUNE	15.34	8.38	(45.37)
JULY	17.00	8.96	(47.29)
AUGUST	16.88	13.60	(19.43)
SEPTEMBER	10.56	14.92	41.28
OCTOBER	11.72	22.92	95.56
November	12.60	33.67*	167.22
December	18.53	N/A	N/A

Source: Servicio Nacional de Informacion de Mercados
2003 Exchange Rate Avg.: U.S.\$1.00 = \$10.79 pesos
November 24, 2004, exchange rate U.S. \$1.00 = \$11.34 pesos
* As of November 24, 2004.

TRADE MATRIX

Fresh Tomatoes		UNITS: METRIC TONS	
EXPORTS FOR MY 2003/04 (OCT-SEPT) TO:		IMPORTS FOR MY 2003/04 (OCT-SEPT) FROM:	
U.S.	815,096	U.S.	30,863
OTHER		OTHER	
CANADA	529	CHILE	0
TOTAL OF OTHER	529	TOTAL OF OTHER	0
OTHERS NOT LISTED	10,016	OTHERS NOT LISTED	0
GRAND TOTAL	825,641	GRAND TOTAL	30,863

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, September 2004.

Tomato Paste		UNITS: METRIC TONS	
EXPORTS FOR MY 2003/04 (MARCH-FEB) TO:		IMPORTS FOR MY 2003/04 (MARCH-FEB) FROM:	
U.S.	6,488	U.S.	40,943
OTHER		OTHER	
COSTA RICA	193	CHILE	3,494
CUBA	26	CHINA	229
TOTAL OF OTHER	219	TOTAL OF OTHER	3,723
OTHERS NOT LISTED	83	OTHERS NOT LISTED	279
GRAND TOTAL	6,790	GRAND TOTAL	44,945

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, September 2004.

FRESH TOMATOES

PRODUCTION

Mexico's overall tomato production for MY 2004/05 (October/September) is forecast at 2.0 MMT, due to higher yields. According to tomato producers, area planted tends to increase or decrease depending on international prices. MY 2004/05 area planted for tomato for fresh consumption is forecast at 70,000 hectares, due to fluctuations in international prices which have occurred since MY 2003/04. MY 2004/05 fresh tomato production is forecast at 1.97 MMT.

Although there have been good weather conditions in most states, the states of Sinaloa and Jalisco were affected by rain and high humidity during late September-early October resulting in very little volume harvested for late November and December 2004. As growers had to replant the affected tomato area, higher production is expected to resume by January 2005. Weather conditions for the rest of the season are expected to be good. Mexican states, which grow for the domestic market, tend to plant more Italian tomatoes while those growing for export usually plant standard round tomatoes. However, the state of Sinaloa plants for both markets.

The fresh tomato production estimate for MY 2003/04 was revised upward, due to an increase in area planted and harvested in some states like Sinaloa. Therefore, MY 2003/04 area planted and harvested for fresh consumption was revised upward. However, producers indicate that yields were lower compared to MY 2002/03 yields, due to early and heavy rainfall, high humidity and low temperatures. Production for MY 2002/03 was revised upward due to better yields. Area planted and harvested for fresh consumption for MY 2002/03 was revised upward as some states planted more tomatoes for the domestic market.

During the winter season, Sinaloa is the main producer and exporter of tomatoes. Sinaloa growers expect that the use of improved and extended shelf varieties, drip irrigation, and plastic mulch will keep yields at high levels. During the summer season, Baja California is the main producer and exporter of tomatoes. Both Sinaloa and Baja California are more technologically advanced than other producing states. U.S. California tomatoes face direct competition from Baja California. Producers from Jalisco have begun to plant more acreage, due to the advantage of exporting to the United States. Jalisco produces tomatoes for the summer cycle and exports after Baja California in October, November and December. Sinaloa, Baja California, and Jalisco are producing horticultural products, including tomatoes in green houses. Reportedly, there are about 100 hectares in the country dedicated to green houses.

Tomato production costs continue to be high. Imported agrochemicals, seeds and fertilizers are the most costly inputs. Fresh tomato production costs for MY 2003/04 varied from 30,000 to 40,000 pesos/ha (US\$2,655 to \$3,540/ha) in the states of Sinaloa and Baja California, which mainly produce for export purposes. The cost of production depends also on the value of the peso against the dollar because many inputs are imported from the United States. Lack of credit is also a constraining factor as Mexican banks do not provide loans to tomato growers. Producers with export contracts receive some operating capital from contracting companies in the United States. Producers and the Mexican government are very aware of meeting quality standards on fruits and vegetables and have implemented programs to comply with food safety requirements.

Overall yields for tomatoes for fresh consumption for MY 2004/05 are forecast at 29.3 MT/ha. Individual yields vary depending on production conditions and inputs. Baja California and Sinaloa growers generally achieve the highest fresh tomato yields, about 35 to 45 MT/ha, due in part to their widespread pest and disease control programs. In other areas in Mexico, growers achieve lower yields, 12 to 25 MT/ha, due to less intensive use of inputs and less intensive pest control efforts. Grower prices in Sinaloa began in December 2003 at approximately \$1.20 pesos/kg (US\$0.10/kg), increasing to \$1.90 pesos/kg (US\$0.17/kg) in February 2004 at the height of the export season. Since Sinaloa is not supplying the market for late November and December 2004, due to weather problems, the state of Mexico is supplying the market, but with higher grower prices of more than \$4.00 pesos/kg (US\$0.35/kg). Sinaloa is expected to enter the market by January 2005 with grower prices similar to MY 2003/04.

CONSUMPTION

Tomato consumption for MY 2004/05 is forecast to be slightly higher compared to MY 2003/04, due to expectations of a larger crop. Although the season has so far been marked by very low production in Sinaloa and Jalisco, due to adverse weather conditions, production is expected to rebound in January. Low tomato production in Mexico and in Florida is currently contributing to very high international prices at the beginning of the marketing season. These high prices are not expected to continue, as the California tomato crop will hit the market afterwards. The final tomato consumption figure will depend on tomato exports to the United States, since domestic consumption tends to be a residual after exports. Tomato consumption estimates for MY 2003/04 are expected to be higher than previous estimates, due to more affordable prices and less demand from the international market. MY 2002/03 consumption estimates are also expected to be higher than previous estimates, due to good consumer prices.

During March, April and May, local tomato prices tend to rise because of increased exports from the state of Sinaloa, which in turn reduces supplies for the domestic market. However, for MY 2003/04, exports were slightly lower-than-expected and domestic prices were subsequently not as high. Exports also increase from June to August as this is Baja California's market window. By the end of November and December, tomato prices usually rise again, due to an increased rate of export from the states of Jalisco and Sinaloa. The tomato paste industry has always bought tomatoes from the fresh market in addition to buying contracted tomatoes for processing. However, the price competition from the fresh market has always been a problem for the industry as, when fresh market prices are very attractive, tomatoes for processing are diverted to the fresh market and vice-versa. But, recently there has been less industry demand for tomatoes destined to paste production.

TRADE

According to Mexican trade data, Mexico exported 825,641 MT to the United States during MY 2003/04 (Oct/Sept), an 11.5-percent decrease compared to MY 2002/03 exports of 932,794 MT, due to low international prices and weather-related problems that lowered tomato quality. However, tomato producers indicate that exports were lower than the ones indicated by Mexican trade data, or about 750,000 MT for MY 2003/04, which is closer to U.S. trade data. As with many other commodities, there has always been a discrepancy between U.S. and Mexican trade data on tomatoes. Tomato producers are expecting slightly higher tomato exports for MY 2004/05, as good weather conditions are expected to be reflected in better quality as well as better international demand, especially from the United States. Over 95 percent of all tomato exports go to the United States.

The Tomato Suspension Agreement between Mexico and the United States, signed on December 4, 2002, binds all tomato exporters to an agreed reference price. The reference price for exporting fresh tomatoes for the summer season (July 1 to October 22) is 17.2 cents per pound, and the reference price for the winter season (October 23 to June 30) is 21.69 cents per pound. According to growers, tomato prices for MY 2003/04 fell close to the winter reference price, due to larger supplies in the international market. Because of this and the poor quality of Mexican tomatoes, some tomatoes were returned from the border and went to industry for processing, while others were simply dumped by the roadside rather than take such low prices. Fresh tomato exports to the U.S. have a zero duty under NAFTA. Tomato tariff classification numbers are 07.02.002, 07.02.004, and 07.02.006.

Fresh tomato imports from the United States represent a small portion of Mexico's fresh consumption and fluctuate depending on the international price. According to importers, MY 2004/05 imports are forecast to decrease slightly to about 28,000 MT compared to MY 2003/04, due to higher prices for imported product and available domestic product at more affordable prices. According to Mexican trade data, imports for MY 2003/04 increased to 30,863 MT, due to shortages of product during the summer months. Fresh tomato imports from the United States for MY 2002/03 were 13,310 MT, the lowest level in the last three marketing years as a result of a strong demand for U.S. tomatoes in the United States and very expensive prices for the Mexican consumer. Imported tomatoes are most competitive from July to September. The Mexican government does not provide export subsidies for fresh tomatoes or tomato products.

MARKETING

Fresh tomatoes destined for domestic consumption, including imported tomatoes, pass through the various wholesale markets throughout Mexico and from there to the large supermarkets and retail stores. The promotional campaigns focus on technical knowledge of proper tomato handling (e.g., how to ripen green tomatoes, etc.), point of sale material, and supermarket promotions. For 2005, the promotional campaigns will concentrate on importers and in the northern border cities, as larger volumes of tomatoes tend to be bought here. Tomatoes for the export market are shipped directly from the producing areas to the U.S. border.

TOMATO PASTE

PRODUCTION

MY 2005/2006 (March/February) tomato paste production is forecast to remain at 7,000 MT, due to expectations of continued low international prices for tomato paste, which makes it more profitable to continue importing to supply the domestic market. The tomato paste production estimates for MY 2003/04 and 2004/05 were revised downward, as costs of production continued to be high and international prices low.

Tomato paste production in Mexico has become increasingly less profitable over the last four marketing years. Increased costs of production, such as higher fresh tomato prices, and lower international prices for paste have forced the industry to import tomato paste rather than produce it locally. Only a few companies are producing for international contracts, mainly for U.S. contracts.

Planting and harvesting for processing tomatoes depend on fresh domestic market prices and international prices for tomato paste. Area planted and harvested for processing is expected to remain flat for MY 2004/05 with yields ranging at about 40 MT/ha, given normal weather

conditions. Area planted and harvested for MY 2002/03 and 2003/04 remain unchanged with yields ranging from 33-35 MT/ha, as weather conditions were not favorable. The balance of tomatoes for the processing industry is bought in the fresh market when needed.

In addition to international demand, production of tomato paste depends very much on the fresh tomato demand. When there is a high demand for fresh tomatoes for the export market, some processing tomatoes are diverted and end up either in the domestic fresh market or the fresh export market. When tomato prices for the export market are low, tomatoes are available for the processing industry at good prices; however, if there is low international demand for tomato paste, the processing industry cannot take advantage of these low fresh tomato prices, as it cannot sell its product very easily. Most plants operate from March through June. Tomato paste production data is difficult to obtain because it is not officially published and only a few producers provide accurate – and then only -- partial data.

Seven tomato paste processing plants, which constitute the majority of the Mexican tomato paste industry, are located in Sinaloa. Mexican and multinational firms control these plants, but due to the current international price situation, only one or two plants are producing tomato paste. Other plants process fresh tomato into tomato sauces or tomato-containing products. Companies that import tomato paste market it under their own labels and manufacture products such as ketchup, tomato-based juices, sauce, hot sauce, sardines, and other paste-containing products.

CONSUMPTION

Tomato paste consumption is estimated as the residual after subtracting exports and ending stocks, if available, from total supply, then adding imports as appropriate. Prior to 2000, the domestic market acted as a buffer for large supplies of canned tomato paste when companies were producing at higher levels. However, since 2000, when companies started to reduce tomato paste production from the record-high levels of 30,000 to 40,000 MT, domestic consumption has been more judiciously met through imports.

Tomato paste consumption for MY 2005/06 is forecast to remain at 38,200 MT. Final consumption data, however, will also depend on the volume of tomato paste exported and fresh tomato prices. Tomato paste consumption estimates for MY 2004/05 were revised downward as the import industry slowed down imports, due to less demand from the different industries producing tomato-based products and slightly higher international prices. Consumption for MY 2003/04 was revised downward, due to lower-than-expected demand from industry. According to the industry, tomato paste destined to the dehydration industry averages between 3,000 to 5,000 MT. The dehydration industry processes tomato paste mostly into tomato powder. High capital costs and the lack of adequate storage encourage processors to sell excess supplies into the domestic market rather than to maintain inventories.

TRADE

MY 2005/06 tomato paste exports are forecast to remain flat at 6,800 MT, due to low international prices. MY 2004/05 tomato paste exports are estimated at 6,800 MT, which, although a less-than-one-percent increase, is not that high and due to the fact that Mexican paste continues to be high-priced. Tomato paste exports for MY 2003/04 remain unchanged. The main markets for Mexican tomato paste are still the United States and South America. The possibility of Mexico increasing its tomato paste exports have dwindled as the United States has increased its tomato paste exports and as China, with its high levels of production, has put downward pressure on international prices.

MY 2005/06 tomato paste imports are forecast to remain at 38,000 MT, due to less demand and continued recovery from the MY 2003/04 market saturation when imports were very high as a result of affordable international prices. The MY 2004/05 import estimate of 38,000 MT also reflects this recovery. Import data for MY 2003/04 remains unchanged. Tomato paste imports have increased during the last three years to meet consumer and food processing demand as domestic tomato paste production has declined. Prior to MY 2003/04, tomato paste imports averaged around 10,000 MT. According to industry sources, importing tomato paste from the United States, China and Chile was less expensive than producing it in Mexico. Imports include tomato paste for the dehydration industry.

Tomato paste imports were on average \$0.31/lb for MY 2003/04, while exports prices were on average \$0.42/lb. Tomato paste imports are subject to a 20-percent duty for all non-NAFTA suppliers. Imports from the United States have a zero duty. The tariff classification code is 20.02.90.99.